Accelerating Investment in Low Emission Land Management in Asia

Workshop Proceedings

February 11-12, 2016

Bangkok, Thailand

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Acronyms

AFOLU	Agriculture, Forestry and Other Land Use
ASEAN	Association of Southeast Asian Nations
CO_2	Carbon Dioxide
DFIs	Development Finance Institutes
ESG	Environment, Social and Governance
GHG	Greenhouse Gas
GIIN	Global Impact Investing Network
INDC	Intended National Determined Contributions
IRSI	Impact Reporting & Investment Standards
LEDS	Low Emission Development Strategy
MNC	Multinational Corporations
PPP	Public Private Partnership
SME	Small to Medium Enterprises
SWOT	Strengths, Weaknesses, Opportunities and Threats
TA	Technical Assistance
USAID LEAD	USAID Low Emission Asian Development
USAID LEAF	USAID Lowering Emissions in Asia's Forests
USAID RDMA	United States Agency for International Development Regional Development Mission for Asia
WWF	World Wildlife Fund for Nature

Executive Summary

On February 11-12, 2016, approximately 50 participants from Asia, the United States and Europe, representing companies, financial institutions, investors, analysts, conservation organizations, the United States Agency for International Development (USAID) and partners, and other donors attended the workshop *Accelerating Investment in Low Emission Land Management in Asia.* Their task was to examine the challenges and opportunities for donor investments to catalyze private investment in lowering greenhouse gas (GHG) emissions from the agriculture, forestry and other land use (AFOLU) sector. The specific aims of the workshop were to:

- Examine potential mechanisms for stimulating and aligning public and private sector investments in low emission land management in Asia
- Explore potential commodities, landscapes, and/or companies for which these mechanisms can work
- Articulate strategies for how public sector finance can leverage private investment

The workshop built on a USAID Regional Development Mission for Asia (USAID RDMA) commissioned study by Dalberg Global Development Advisors to identify and define direct investment opportunities that would catalyze private capital inflows into low emission land management and conservation financing[1]. The Dalberg study prioritized three financial mechanisms, namely:

1. Increasing investible opportunities that increase deforestation-free agribusiness through accelerators for fund managers and incubators for enterprises.
2. Incentivizing Environmental, Social and Governance (ESG) compliance among lending institutions thereby pivoting the existing aggregation of capital towards improved conservation outcomes.
3. Establishing a technical assistance facility that facilitates the issuing of green bonds, thereby aggregating potential capital and reducing transaction costs.

During the two-day discussion participants split into working groups to examine the strengths and weaknesses of each mechanism; recommend refinements or alternatives where necessary; discuss where the mechanisms could feasibly work; and describe how the mechanisms could work. Following each session, the working groups reported back to the plenary for further discussion.

Participants concluded that the three mechanisms explored *are all valid options* through which donors may leverage private investment in lowering emissions in the AFOLU sector, but that no one mechanism can solve all low emissions investment challenges. Each has different modalities, scales of application, risks and potential emissions impacts:

- The **Incubator/Accelerator** mechanism presents a holistic means of providing financial and technical support to small or medium companies with the potential to locate supply/demand opportunities. Scale and impact is potentially limited and picking between an incubator and accelerator is a false

[1] The full report, *USAID Sustainable Landscapes: Investor Mapping in Asia and Strategic Action Plan for RDMA - Engagement Opportunities in Conservation Finance* was submitted to USAID RDMA on 9 October 2015. Available at: http://www.leafasia.org/library/usaid-sustainable-landscapes-report

dichotomy as the two must interface. Combining an accelerator and an incubator therefore, would be the most sensible way forward.

- Adoption of **ESG** measures by banks and financial institutions represents a potentially efficient and effective step towards improving the sustainability of AFOLU investments across the region. However, auditing compliance and ensuring effective emission reductions across a broad range of SMEs is a challenge.
- **Green Bonds** (participants agreed landscape bonds may be a more precise term) have been mostly issued for energy projects, although there appears to be growing interest in green bonds in the AFOLU sector. This is largely because of the potential to raise large amounts of investment capital and their increasing relevance once the scale of sustainable AFOLU investment in the region reaches higher levels. Current opportunities for scaling in Asia are limited due to the difficulty in aggregation of capital and lack of mature (carbon) markets.

Summary of key workshop results:

	Incubator/Accelerator	**ESG Standards**	**Green/Landscape Bonds**
Challenge	Lack of remunerative markets for carbon, lack of investable opportunities, lack of seed capital; high expectations from capital markets.	Lack of incentives to develop, adopt and enforce new ESG standards, limited additionality, lack of capability (financial and technical) within SMEs to comply and difficulty in monitoring and evaluating emission reduction impact.	Limited experience in issuing bonds to AFOLU sector, difficulty in aggregating standardized AFOLU low emission investment packages, lack of standards and audit mechanisms, difficulty in monitoring and verifying emission reductions, few investments given typical bond size
Target	High emission agricultural commodities. A decision here will determine engagement, architecture, financing and partners. Donors should target existing initiatives and players.	Banks and other financial institutions that have large agribusiness portfolios; intermediaries, such as cooperatives and smaller regional/local banks; and regulators and third party auditors.	Financial institutions issuing green/landscape bonds for intensification of land use associated with low emission outcomes (i.e. Palm oil, pulp/paper, rubber) and financial intermediaries with local knowledge.
Risks	Lack of clear value proposition (environmental impact, financial return or company reputation). Multiple revenue streams will be required in the absence of carbon market certainty.	Limited ability of SMEs to comply; cost, transparency and accountability for auditing and enforcing new ESG standards; and standardization of ESG standards across Asian banking sector.	The integrity of the green/landscape bond, both at the time of issue and over the tenure of the bond is a major risk. Environmental services are highly volatile and standardization for aggregation is risky for financier.
Donors to provide	Convening power. Grant/equity funding and first loss guarantee (in the form of patient capital). Technical assistance for fund managers and incubators to build awareness and capabilities.	Technical assistance (80% investment) and first loss guarantee (20% investment) is required; concessionary capital is not required. Resolving auditing issues is an important role.	Convening power. Technical assistance to value non-financial ESG value of bonds (allowing bonds to be issued at a discount) and verifying performance. Concessionary capital (first loss guarantee, grant funding, gap financing) to subsidize risk.
Private sector to provide	Capital that leverages donor investment of 1:1 to 1:5; share risk and tighten alignment across ecosystem players.	Concessionary capital, investment portfolio, technical expertise, convening power.	Banks to underwrite and issue green/landscape bonds.

Scalability	High if pilot investments are successful.	High potential because 'clients' are known, stable and with a broad reach across sectors and countries, plus increasing consumer demand for ESG compliant products. Stock exchanges have a leveraging role, amplifying the message to the market, adding credibility and setting reporting standards on ESG compliance.	Potential is high if challenges and risks can be overcome.
Next steps	One approach will not work in all markets and efforts should not be spread too thin. Donors need to convene commodity or country specific meetings to co-design specific engagement strategies.	Donors to establish relationships with senior level decision makers in the banking sector that have interest and motivation to spearhead initiative. Complement current initiatives and partner organizations already active in this area. Donor to ensure time frame for action is aligned to banking sector time frame.	Piloting with private sector to ensure country context, bond architecture, demand and partner expectations are aligned. Development of clear standards for emission reductions in AFOLU sector.

Other key messages from the workshop include:

- Regardless of the financial mechanism, returns on low emission investments will be necessary to cover any increased costs and to ensure sustainability and scalability once concessionary capital has been phased out.
- The policy, regulatory and governance environment will be a critical determinant of the potential success of any financing mechanism. Donor efforts to mobilize private investment should target countries and jurisdictions with favorable policy and institutional environments where complementary initiatives are present.
- Monitoring and evaluation of investment impacts on emissions and other social and environmental outcomes will be essential in ensuring sustainability goals are met. In some cases this may entail setting baselines and measuring emission reductions and development outcomes while in others, investments may be conditional on the inclusion of low-emissions activities and exclusion of high emissions activities, which could form the basis of monitoring.
- Technical assistance to build capacity and awareness on the emerging investment platforms with the finance community and private sector will be equally important as the investment of donor capital.

Participants agreed that strategic and targeted donor-funded capital investments are necessary to catalyze private sector actions and investments. Further, the ability of donors in convening partners, building bridges and reconciling expectations is highly valued by the private sector. The priority of the finance community is to secure return on investment, perhaps paraphrased as *if the mechanism is right and profits can be realized, the funding will flow*. The AFOLU community tends to focus more on how the investment will reduce emissions, paraphrased as *define the profitable emissions-reducing activity and investors will come regardless of the mechanism*. Donors therefore should co-define with private partners initiatives where expectations, processes and intended impacts are agreed. This will be essential to match supply and demand and deliver a range of public and private sector benefits to the intended beneficiaries.

Given the complexity and challenges in attracting and directing new investment in low emission AFOLU activities, further discussion is required to assess and refine the three mechanisms in the context of national policy and institutional frameworks, potential for emissions reductions, commodity supply chains, financing demands and stakeholder needs.

Background

The Paris Agreement reached at the 21st Conference of the Parties commits the global community to "holding the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5 °C above pre-industrial levels." To achieve this, deep greenhouse gas (GHG) reductions across all sectors, including the AFOLU sector is required, to be financed by $100 billion per year. However, it is estimated that $300-$400 billion per year is required for conservation financing, but in 2012 only $50 billion was invested, primarily by governments, multilateral agencies and philanthropic sources[2], with only $1.9 billion[3] from the private sector. To reverse this trend the USAID Regional Development Mission for Asia (USAID RDMA) is investigating strategic investments that will catalyze and accelerate private sector investment in AFOLU low emission sustainable land management.
In 2015, USAID RDMA commissioned Dalberg Global Development Advisors to identify specific high-level engagement opportunities with the potential to crowd-in and catalyze additional private sector investment and funds necessary for AFOLU GHG reductions through sustainable land management[4].
The framework in which to explore potential opportunities included innovation, leverage and market need with the expectation of identifying 'tipping' points for private sector finance to be leveraged for 'quick wins'. From seven possible engagement concepts, three engagement mechanisms were jointly identified by USAID RDMA and Dalberg consultants:

1. Supporting investment in deforestation-free agribusiness through accelerators for fund managers and incubators for enterprises.
2. Incentivizing environmental, social and governance (ESG) compliance among lending institutions.
3. Establishing a technical assistance facility that facilitates the issuing of green bonds.

The workshop, *Accelerating Investment in Low Emission Land Management in Asia,* provided an opportunity to consult, review and validate the three mechanisms. Nearly 50 participants from the United States, Europe and Asia discussed and debated current investment ideas. Representation included private sector companies; financial institutions and investors; private sector analysts, strategists and facilitators; and USAID and its partners and other donors.

Successful and sustainable investment of the AFOLU sector requires a holistic and comprehensive approach. Theory of change models have been articulated variously focusing on policy and the enabling environment, capacity and education, technology and data, and economic incentives, amongst others. This workshop was specifically focused on generating significant investment to reduce emissions from the AFOLU sector.

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[2] Parker, C., M. Cranford, N. Oakes, and M. Leggett, ed., (2012). The Little Biodiversity Finance Book, Global Canopy Programme; Oxford. Available at: http://www.globalcanopy.org/materials/little-biodiversity-finance-book
[3] Source: EKO Asset Management Partners and NatureVest (2014), Investing in Conservation: A landscape assessment of an emerging market. Available at: http://www.naturevesttnc.org/pdf/InvestingInConservation_Report.pdf
[4] The report *USAID Sustainable Landscapes. Investor Mapping in Asia and Strategic Plan for RDMA Engagement Opportunities in Conservation Finance*, was submitted to USAID RDMA in October 2015.

Workshop Objectives and Process

The objectives of the workshop were to:

1. Examine potential mechanisms for stimulating and aligning public and private sector investments in low emission land management in Asia.
2. Explore potential commodities, landscapes, and/or companies for which these mechanisms can work.
3. Articulate strategies for how public sector finance can leverage private investment.

The design of the workshop encouraged analysis, assessment and comment on the three identified financial mechanisms, as well as identification of alternate or revised mechanisms. Prior to the workshop participants were asked to self-nominate which mechanism they were interested in examining and during the workshop three working group sessions (see the agenda in Annex 1) examined:

- The potential and validity of each of the mechanisms plus possible alternative models/mechanisms.
- Where each of these mechanisms may 'touch-the-ground'.
- How each mechanism could feasibly work, with a focus on inputs from donors to catalyze further actions from the private sector and other actors.

At the start of the workshop, USAID RDMA representatives indicated that the workshop was not intended to develop specific design or strategy recommendations, rather a dialogue to share perspectives from different partners. As such, emphasis on this third objective was minimized. This report therefore simply captures key discussion points and summarizes key messages arising from the workshop.

Workshop Proceedings

Setting the Context for Discussions

Mr. Alfred Nakatsuma, Director of the USAID RDMA Regional Environmental Office, opened the workshop noting that $300-$400 billion is required annually to combat climate change and that all actors will need to make a significant contribution to achieve this goal, including the private sector. Roles and investment will vary, but USAID RDMA has a significant responsibility to show leadership and provide direction for investment that reduces GHG emissions in the AFOLU sector, alleviates poverty, conserves and protects natural places, and delivers a more sustainable and productive landscape. The workshop is part of an on-going conversation that is expected to contribute to the design of a new USAID RDMA program.

Mr. Brian Bean, Chief of Party, USAID Lowering Emissions in Asia's Forests (USAID LEAF), provided some context with an example of USAID LEAF's experience in the region, in one case providing support to provincial forest and land management plans in Vietnam. While actions to reduce deforestation and forest degradation have been endorsed by national and sub-national governments, limited financing from the public and private sector may significantly reduce the potential for GHG reductions across the landscape. The analysis presented by Dalberg summarizes the investment challenges faced by the USAID LEAF project (see Figure 1). USAID LEAF has explored overcoming these investment challenges. The 2014 expert meeting and training session on *Financing Low Emission Development Strategies (LEDS) in the AFOLU Sector'*[5], the 2015 regional forum on *Developing and Financing LEDS for AFOLU,*[6] and various landscape specific consultancies all suggest **that financial considerations must be integrated into the early stage of project design to ensure activity impacts are commensurate with the kinds and amounts of financing expected**. These, and other efforts, such as the 2015 *Global Landscape Forum: The Investment Case*[7]*,* should be considered and built upon to ensure a coordinated and coherent response.

National climate change declarations as detailed in the Intended National Determined Contributions (INDCs) and other national policy statements will increasingly set the policy, regulatory and investment environment for climate mitigation actions across Asia. Dr. Natcha Tulyasuwan, Forest Carbon Advisor, USAID Low Emission Asian Development (USAID LEAD), examined INDC commitments and concluded that investment in the AFOLU sector is urgently required for many Asian countries to meet their INDC commitments, as Asia accounts for the largest proportion of global AFOLU emissions (1990-2010). Dr. Tulyasuwan noted positive private sector action, but also noted that further action was needed as global INDC commitments do not bring the world's community below the 2°C threshold.

[5] For a summary of the experts meeting and training see: http://www.leafasia.org/library/summary-expert-meeting-and-training-session-financing-afolu-leds
[6] For forum report and presentations see: http://www.leafasia.org/events/regional-forum-developing-and-financing-low-emissions-development-strategies-agriculture
[7] See: http://www.landscapes.org/london/

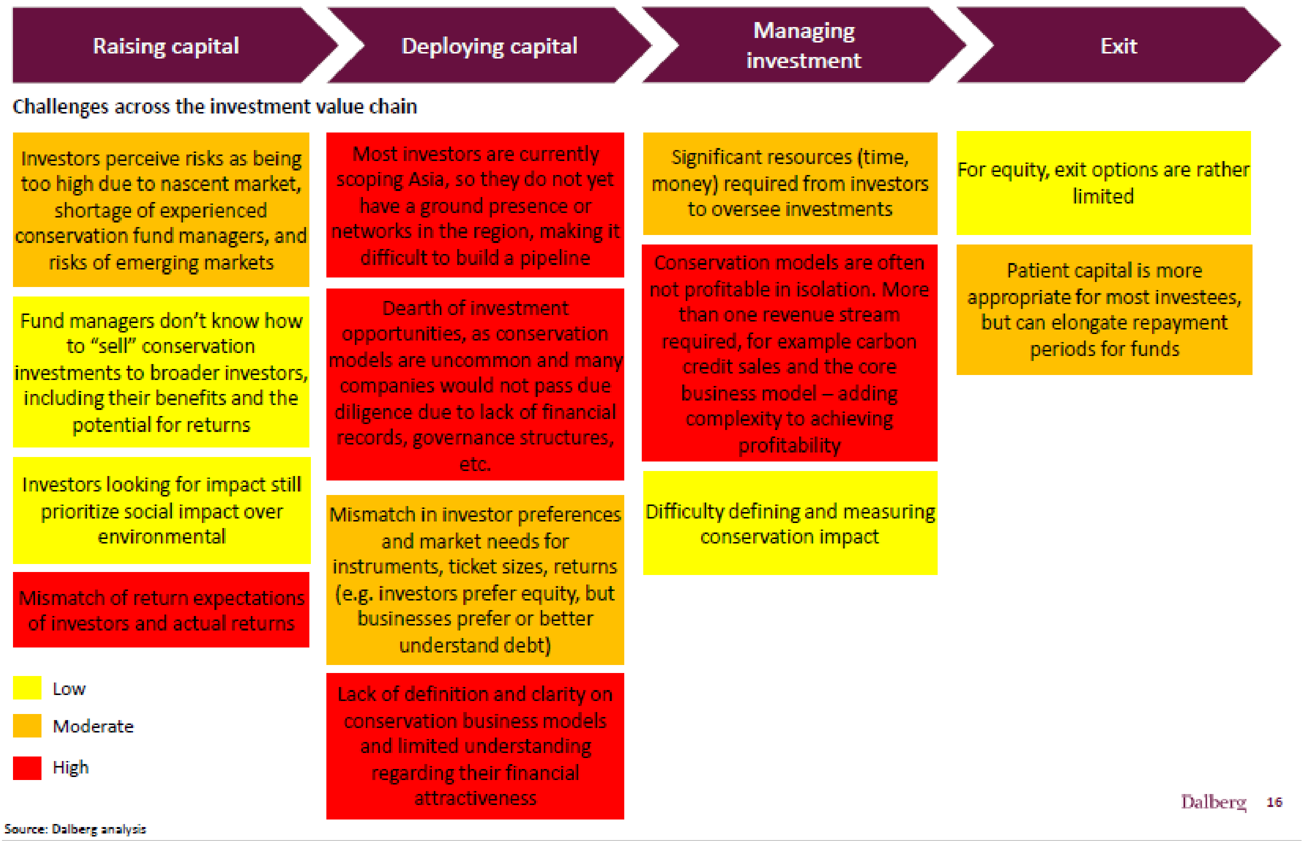

Figure 1: Barriers to private sector investment in Asia (Source: Dalberg (2015) USAID 'Sustainable Landscapes': Investor Mapping in Asia and Strategic Action Plan for RDMA, Engagement opportunities in conservation finance)

Exploring the Financial Landscape

In 2015, Dalberg Global Development Advisors were commissioned by USAID RDMA to identify specific high-level investment mechanisms for USAID RDMA that had the potential to crowd-in and catalyze private sector investment. Mr. Rajen Makhijani from Dalberg introduced this work and the process to move from seven possible engagement concepts down to three priority mechanisms, as viewed through the ability for innovation, to leverage additional investment and meet a market need. The three engagement mechanisms are (see Figure 2):

1. Supporting investment in deforestation free agribusiness through accelerators for fund managers and incubators for enterprises is an engagement model to resolve a lack of underlying business models.
2. Incentivizing environmental, social and governance (ESG) compliance among lending institutions is an engagement model to pivot existing aggregated finance.
3. Establishing a technical assistance facility that facilitates the issuing of green bonds is an engagement model to aggregated funds and finance to lower transaction costs.

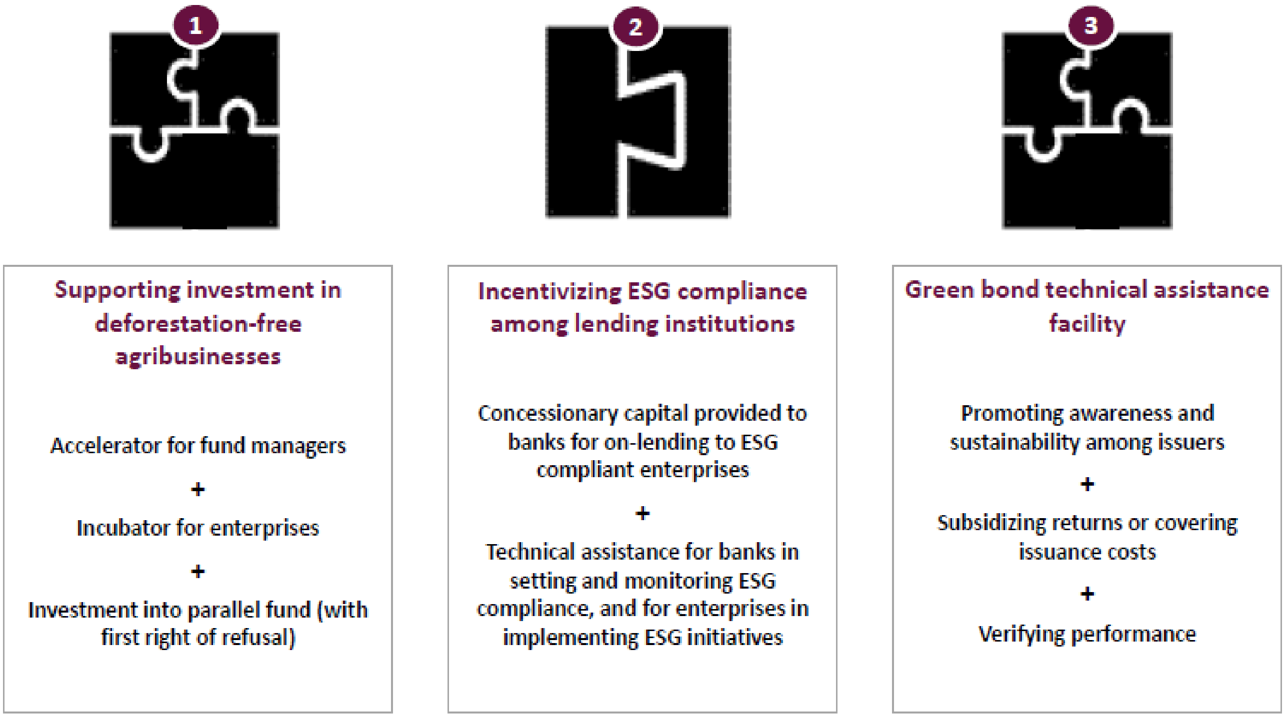

Figure 2: Three proposed engagement models (Source: Dalberg (2015) USAID 'Sustainable Landscapes': Investor Mapping in Asia and Strategic Action Plan for RDMA, Engagement opportunities in conservation finance)

SWOT Analysis and Validation of Identified Private Sector Engagement Models

The first working group exercise asked participants to consider strengths, weaknesses, opportunities and threats (SWOT) of their chosen engagement model, assumptions made and outstanding questions, and alternatives or other mechanisms that have been missed.

Incubators/Accelerators

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STRENGTHS

- Could influence multinational corporations (MNC) through pilots and supply chains
- Has potential to increase economic efficiency
- Draws upon USAID potential to act as an honest broker
- Mechanism has potential to locate supply-demand opportunities
- Mechanism is holistic in comparison with ESG or Green Bonds as a pipeline of investments is created directly
- Mechanism provides credit enhancement
- Donors can reduce risks through 1) first loss, 2) guarantees, 3) cap on return

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WEAKNESSES

- Lack of 'skin in the game' if incubator considered alone
- Low impact/high risk – need connection with networks
- Insufficient actors with capacity and capability
- Lack of clear value proposition (environmental impact and financial return)
- Lack of third party assessment
- Premiums may not be available
- Expensive to do extensive programming

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OPPORTUNITIES

- Presents scaling opportunity - start with commodity and build through commodity chain
- 'No regrets' intervention – particular if scale and replication not achieved
- Government can play a role as incubator
- Potential to enhance returns via non-carbon benefits, e.g., resilience/livelihoods
- Many capital and Development Finance Institutes (DFI), e.g., World Bank, can move more funding through incubators
- Expertise is available in NGOs but there is a lack of expertise in multi-national corporations
- Donors can provide patient capital
- Facilitates development of public private partnerships (PPPs) – consortia including companies and governments to implement INDCs
- Potential to leverage technology to bring efficiencies
- Potential to help align market forces and incentives within green supply chain
- Operable on a regional basis to capture regional opportunities

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THREATS

- Corruption
- High expectations from capital markets (for incubator) given nascent space
- Small scale and limited impact on emission reductions
- Lack of existing regulations (e.g. real estate)
- Foreign currency exchange risk when working at the regional level
- Carbon markets unreliable/immature
- High risk for one commodity/source

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Discussion Points:

- Picking between an incubator and an accelerator is a false choice and the two must interface. The discussion focused around sequencing and priorities: should investment be directed at incubators to address the lack of bankable/investable projects or at raising the capacity of fund managers to manage, consolidate and aggregate investable projects, thereby creating a robust, innovative market structure with multiple capable players? It was recognized that even if driven by a government entity or donor an incubator cannot exist on its own and it must be driven by actors with 'skin in the game' (i.e., required a return on investment).

- Scale and impact may be limited as incubators and accelerators are traditionally established to support and aggregate small initiatives with potential to grow. If the aim is to reduce emissions at scale it may be more efficient to work with larger companies that have internal funding and extensive regional coverage.
- Key potential areas for AFOLU emissions reductions include: reducing deforestation and degradation; afforestation/reforestation/land restoration; controlling fires and peat loss; changing to lower emissions/higher carbon storage crops; reducing flooding in rice; reducing tillage; managing crop residues; managing fertilizer use; mitigating emissions from enteric fermentation; managing manure; reducing supply chain emissions. It is likely that for AFOLU sector emissions reductions to be achieved, one or more of the above would need to be targeted by investments or they would need to be included/excluded from investments depending on the emissions impact.
- Lowering emissions will require changes to production and value chains, which will incur costs. Donors may have a role in reducing these costs through the investment of patient capital or provision of guarantees until producers are able to recoup costs.
- Post-Paris agreements and INDCs should support establishment of regulatory and investment frameworks although in areas where regulations are complex, confused or contradictory (e.g., land tenure), timeframes and risk profiles may deter commercial investments.
- Multiple known revenue streams will be needed. Carbon pricing remains highly uncertain and incubators should therefore be built around significant revenue streams from known commodities with carbon providing possible revenue enhancement rather than acting as a core revenue stream.
- Specific ideas on what kind of innovations would or could be incubated were not identified due to the diversity and complexity of opportunities in the AFOLU sector across Asia.

ESG Compliance

STRENGTHS	WEAKNESSES
• Technical assistance can help in stakeholder engagement (banks, corporates, investors, regulators and enablers) • Potential for scale • Impact and replication can be fast, given existing ESG compliant banks and Industry bodies	• Disagreement on ESG standards and implementation • Possible limited additionality, particularly if targeting those that are already convinced • Barriers in enforcing compliance at the SME/small holder level • The largest commodity producers might need the least help
OPPORTUNITIES	**THREATS**
• There is precedent to learn from other regions; high % of European lenders have ESG standards and compliance mechanisms) • The enabling environment will quickly force actors to adopt • The political discourse and timing is right, including public demand and voices	• Resistance to change • Can be highly variable across commodities and geographies • Unless regulatory induced, may not work in certain markets. • Enabling through technology • US government law may restrict USAID investment in Asian banks

Discussion Points:

- Improving ESG compliance presents real investment potential for donors due to speed, scale of intervention, and a known, stable and reliant 'client' base.
- The enabling environment is the critical factor in success or failure. Government policy and regulatory incentives will be essential to drive supply, promote demand and regulate compliance.
- Concessionary capital from donors is not required; rather donors should act as guarantors. Regional banks have capital, but are risk adverse, therefore a guarantee and technical assistance would help banks establish new compliance frameworks, review risk levels, revise lending rates and provide a guarantee on investments made.
- Current initiatives should be built upon. For instance the Stock Exchange of Thailand has joined the UN Sustainable Stock Exchanges (SSE) initiative, the first in Southeast Asia. Many large agribusinesses also have social, environmental and reputational risks to manage which can be leveraged to establish buy-in and acceptance of a new ESG compliance regime.
- Additionality is an issue that must be considered. 'E' for environment is already being actively pursued and written into loans for major agricultural producers and many large companies are already taking their own independent actions on social and governance issues. Defining target clients and understanding their requirements is essential. Targeting Global 500, Global 1000 or even Global 2000 companies will allow scale and impact.
- Meeting ESG standards is not a foregone conclusion. Many small-medium enterprises (SME) may not have the capacity and capability to comply with stringent ESG standards. Therefore donors can play a positive role through the provision of development finance, grants and technical assistance.
- Auditing costs, accountability and transparency are important. There must be a transparent and unambiguous way to monitor, report and certify compliance imposed by lenders. Donors have a role in providing technical assistance, but the process and cost of auditing must be resolved to ensure sustainability, accountability and transparency.
- Financial intermediaries including cooperatives, smaller regional/local banks and multinational financial institutions should be involved in any ESG compliance program.

Green Bonds

STRENGTHS	WEAKNESSES
• If successful, green bonds would help mainstream emission reductions and sustainability in the AFOLU sector • Collaboration possibilities between public and private institutions • Aggregation potential • Long term potential	• Limited scale and predictability • Lack of international Impact reporting, measurement and audit standards nascent • Few available investments given typical bond size • Difficulty finding short-term investments given fixed maturity of bonds • Governance concerns • No current emphasis on AFOLU
OPPORTUNITIES	**THREATS**
• Harmonized credit rating, recognized credit rating could lead to bond premium • Donors can help reduce risk • Expand definition of use of proceeds requirement to include Sustainable Development Goals • Quantification/reporting of impact • Manage investor expectations • Including "E, S" into ESG • Technical assistance • Specific structure for use of proceeds (bring together value chain actors)	• Lack of progress on standards, multiplicity of standards

Discussion Points:

- The green bond market is in its infancy and challenges of establishing standards, compliance and audits needs to be overcome before green bonds become a major source of debt capital. A key issue for ESG investors will be green bond integrity, both at the time of issue and over its tenure.
- While green bonds may be issued by corporations in Asia, the issuing of green bonds is likely to be restricted to financial institutions as the risk profile of Asian corporations is generally too high.
- There is currently little interest in the issuing of bonds directed to the AFOLU sector (90% of green bonds have been issued for energy projects). Donors have a catalytic role in bringing investors into this space, defining the process and developing standards.
- 'Green' is a relatively imprecise term with considerable 'baggage' for bonds that have positive environmental and/or climate benefits. It was suggested that the term 'landscape bonds' or 'landscape management bonds' is a more accurate label to describe the intent of bonds where the use of capital is directed toward improving forest and land management and reducing emissions.
- Green bonds have the potential to attract new investors and support issuer's ESG objectives. To date, green bonds have been issued at similar prices to corporate debt, over a similar investment period and investment grade, suggesting that investors are yet to allocate a specific ESG value to green bonds. Donors may be able to assist here, allowing green bonds to be issued at a discount to traditional bonds (the oversubscription of corporate green bond issuances suggests demand and therefore ESG value is already being addressed). This is most likely a long-term proposition but does suggest potential and a defined role for donors in promoting awareness and building capacity, subsidizing returns or reducing issuance costs, and verifying performance.
- Issuing green/landscape bonds may be a long term proposition due to scale and difficulty in aggregation of capital, the need for mature markets and the difficulty in verifying low emission and sustainable landscape outcomes.

How and Where Will These Mechanisms Work?

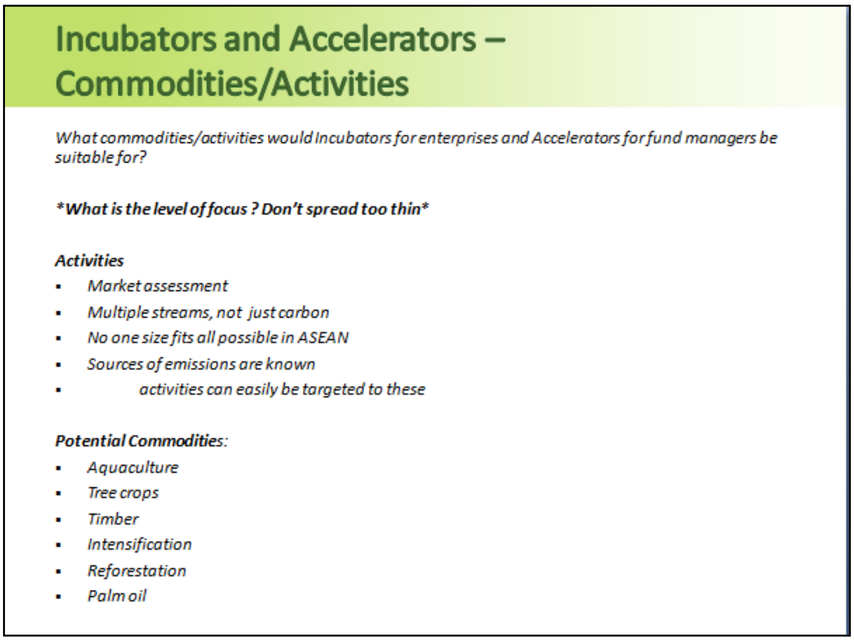
The workshop's second working group session asked participants to examine how the proposed engagement mechanisms could be implemented. Building upon the first working group session, participants continued to assess their nominated engagement mechanism and considered:

- What commodities/activities would the engagement mechanism be suitable for?
- What landscapes and/or countries would the engagement mechanism be suitable for?
- What companies/institutions/actors would be interested in the engagement mechanism financing? What actions would they undertake?
- What policies and regulations, both public and private, are required to establish and access the engagement mechanism financing?
- Are there are other initiatives or regional mechanisms that can be complemented or built upon?
- Is there demand for financing though the engagement mechanism in the AFOLU sector to reduce emissions? Is there a supply of bankable/fundable projects? How can demand/supply be increased? Who should take on this role?
- Can the engagement mechanism be scaled up and replicated?

Given time limitations not all questions were considered. Outcomes were reported back in a plenary session to illicit broader comment and debate.

Incubator/Accelerator

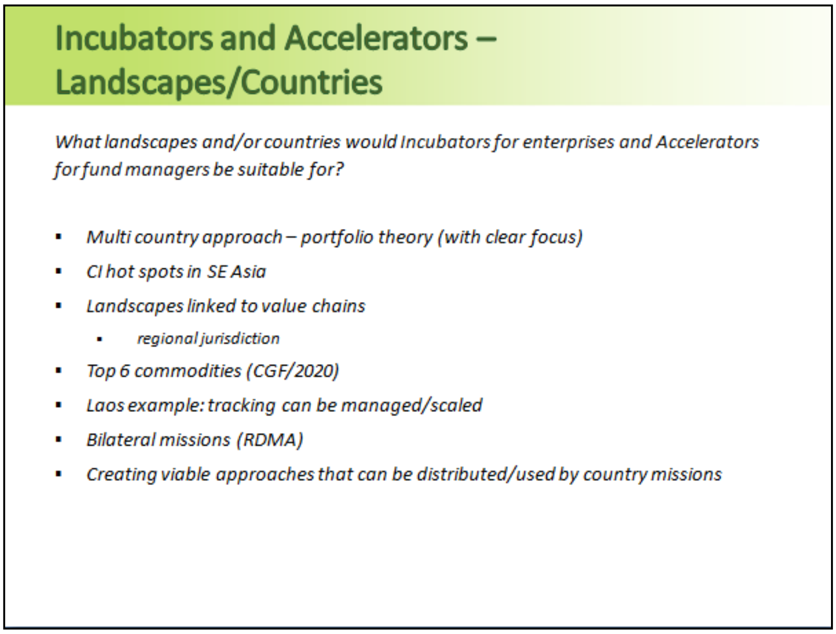
Activities and Commodities: Key Discussion Points



- There cannot be a one-size-fits-all approach across ASEAN member states. Scale will define the architecture and as an incubator can take many forms (i.e., preparation facility or business development), market assessments will be critical.
- Donors should not spread their efforts too thin.
- Known emission drivers and actors will determine engagement, architecture and financing (working capital, capex, equity or debt).
- As carbon remains a relatively undefined asset class with unclear pricing mechanisms, other revenue streams will be required to ensure commercial returns on investment.
- Donors can add value and connect companies and cooperatives with investors. These actions need to be underpinned by a thorough market assessment to determine the potential activities and their scale and impact.

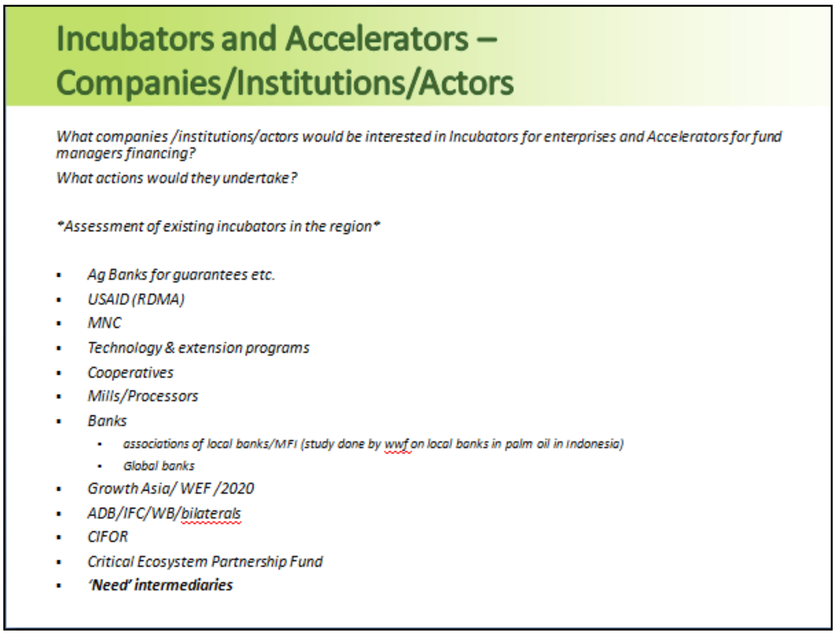
Landscapes and countries: Key Discussion Points

- Regional donors must take a multi-country approach that clearly targets financially viable approaches and builds upon existing efforts.
- Successful models need to be distributed to ASEAN based companies and cooperatives with reach in the AFOLU sector.



Companies/institutions/actors: Key Discussion Points

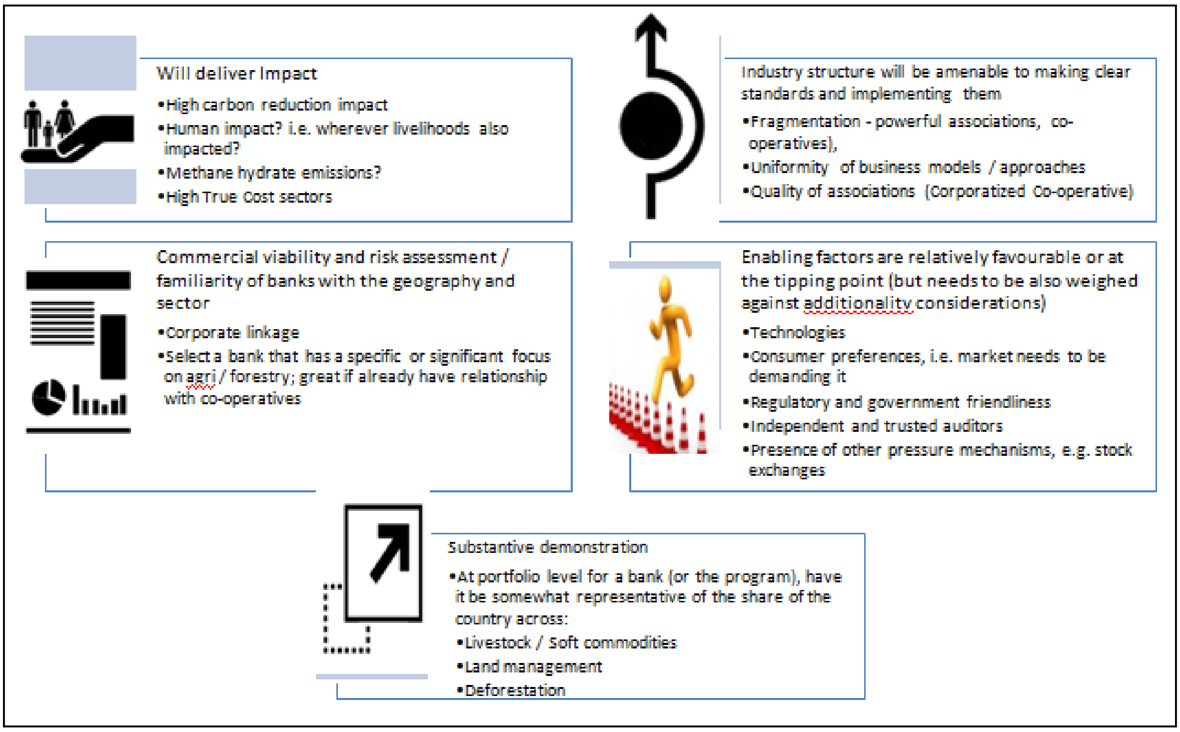
- Given the complexity and diversity of biophysical and political landscapes, many stakeholder groups were identified as having a potential role in the incubator/accelerator concept.
- An assessment of existing incubators could provide more detailed insights into the key potential stakeholders. For this, donors would need to identify intermediaries that can identify technical assistance to producers the needs of donors, lenders and investors.



ESG Compliance

Activities/Commodities: Key Discussion Points

The group did not identify specific commodities, given the potential size of AFOLU-related commodities. Therefore the group considered the ESG criteria that could be developed.



Key agricultural soft commodities and livestock were broadly identified owing to scale of production, emission reduction/environmental impact, small-holder livelihood opportunities and low risk profile. Regardless of commodity, the product must be competitive in the market. The group indicated agreement on the desire to finance good commercial choices. Rather than just looking at CO_2, it was agreed that survivability, risk and opportunities need to be considered.

Landscapes and countries:
Key Discussion Points

The group had no strong recommendations other than to focus on biodiverse and high carbon-intensive landscapes to ensure emission reduction potential is achieved through strong ESG compliance mechanisms.

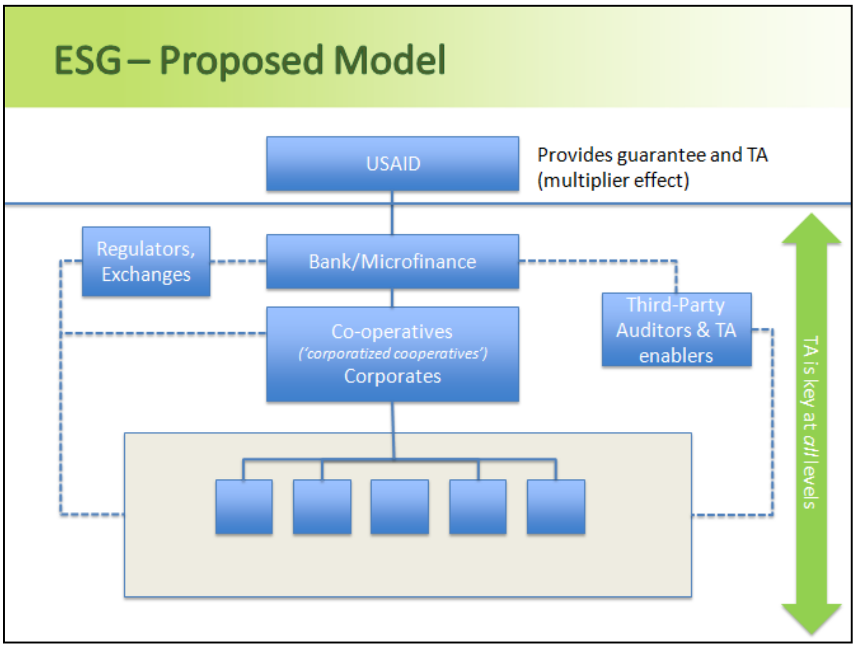
ESG – Applying criteria to select / make choices

Commodities / Activities	• Livestock • Soft commodities (with land management and environment conservation issues)
Landscapes / Countries	• Bio-diverse / high carbon-intensive regions
Companies / Institutions / Actors	• FI, Regulators, Exchanges, Corporates, Co-operatives, and Enablers (auditors and research houses)
Demand / Supply	• Consumer driven, and media coverage on sustainable business • Precedents and existing standards

Companies/institutions/actors:
Key Discussion Points

A model of stakeholder interactions was proposed. The key elements included:

- Banks to be targeted have a strong agribusiness portfolio and a history of working with farming cooperatives.
- Corporatized cooperatives are critical as the banking sector does not have the capacity to lend to individual farmers under new/revised ESG standards.
- Third party auditors to measure compliance are essential. Who these are and how they are funded was an unresolved question.
- Technical assistance to all actors is crucial to build awareness and capacity to conform to new ESG standards. Donors have a key role to play here.
- Stock exchanges have a leveraging role, amplifying the message to the market, adding credibility and setting reporting standards on ESG compliance.



Supply/Demand:
Key Discussion Points

- Consumers are increasingly demanding ESG compliant products. Donors and the banking institutions can build upon this demand and existing standards.

Green Bonds

The group first considered pre-conditions for green/landscape bonds to be issued.

Ultimately the goal of a donor investment is the issuance of a green/landscape bond. For this to occur the aggregation of a number of standardized project transactions is required to achieve the necessary scale. Inflexibility of green/landscape bonds will possibly limit 'AFOLU landscape management' bonds to emerge.

What is needed before a Green Bond?

- Look for a mechanism to reach scale in investment and aggregate investable opportunities
  - How can nascent sector grow to reasonable scale
- Perhaps not a green bond, but an AFOLU, Landscape Management Bond
- How to use TA effectively
  - Donor support or outside funders
- How many revenue stream can be developed
  - Greater number, more diversification, lower risk

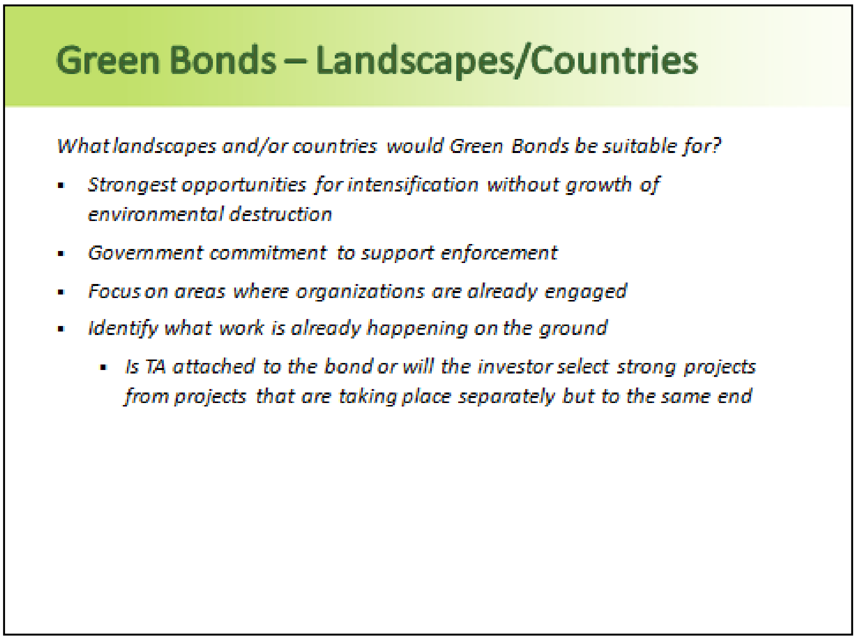
The group then considered commodities/activities, landscapes/countries and companies/institutions/actors for which green/landscape bonds might be issued. Lastly, the group focused on the enabling environment for green/landscape bonds.

Green Bonds – Commodities/Activities

What commodities/activities would Green Bonds be suitable for?

- *Intensification (better use of land)*
  - *Palm in Indonesia – plenty of interest*
  - *Strong arguments for coffee and cacao*
  - *Similar with pulp/paper, rubber*
- *Sustainable Tourism – difficult to develop*
  - *Proven to only be financially viable in distinct cases*
- *Environmental Services (e.g., Carbon, clean water BUT highly volatile, not suitable for a bond; however, may be used as a component of Intensification and Sustainable Tourism)*
- *Waste to energy activities to reduce deforestation pressures*

In considering countries and actors, key considerations are scale, risk and protection of investment asset.



Like the other mechanisms, a broad range of private and public sectors will be involved. Local actors providing local context will be essential.

The importance of guaranteeing compliance and conditionality of non-compliance will be critical. The regulatory environment will be essential in setting an accountable and transparent environment in which green bonds will be issued.

Green Bonds – Regulations and Policy Frameworks

What policies and regulations (both public and private) are required to establish and access Green Bond financing?

- *Enforcement of use of proceeds*
  - *How can we ensure environmental destruction does not occur*
  - *Using finance as a carrot and a stick*
  - *Government assurance of environmental impact*
- *International standards are important for transparency and achieve impact objectives*
  - *Financial institution best practice standards to be followed*
- *Conditionality for non-compliance*

Financing, Partnerships and Measures of Success

The final working group session focused on public financing necessary to leverage private investment in achieving emissions reductions. It built upon the previous two working group sessions to consider:

- What does a donor need to bring to the table?
- What is expected leveraged input from the private sector?
- Who must be involved and what partnerships need to be created?
- What investments need to be made?
- What is the expected impact?
  - Emission reduction, rates of return, leveraged %, social impact, environmental outcomes?
  - What are the metrics for success and how is success measured?

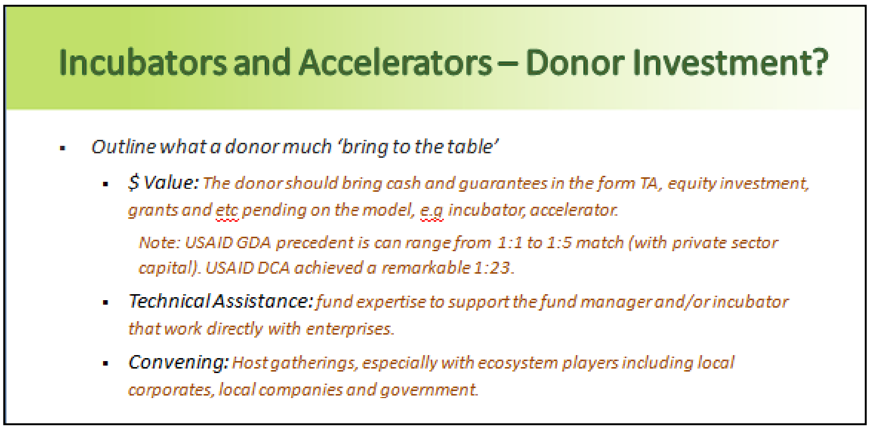
This session was not intended to produce a fully designed intervention package, but rather an opportunity for experts to provide constructive and realistic feedback on what it may actually take to establish a successful intervention.

Incubators and Accelerator Funds

The critical issue for the group was identifying the best starting point, i.e., what commodity, geography, emissions reduction means and/or scale? It was noted that three key elements need to be in place for an impact to be created: Financier, Off-takers and Technical Assistance (TA) providers. Beyond this the key question was whether healthy pipeline and mature market or an immature market and no pipeline are required. The group recommended that country-based round-tables be convened to ensure targeted and context specific responses.

However, there are current initiatives and platforms that that can be built upon, e.g., the 2020 zero deforestation pledge made by members of the Consumer Goods Forum. The private sector desire for change is clearly articulated, and TA at the producer level may fill the gap in achieving the pledge. If quick-wins and scale are important, resources should be directed toward existing fund managers to incentivize new investments that are aligned to USAID RDMA's investment priorities (e.g., low emission) but outside their current portfolios

What must a donor 'bring to the table'?

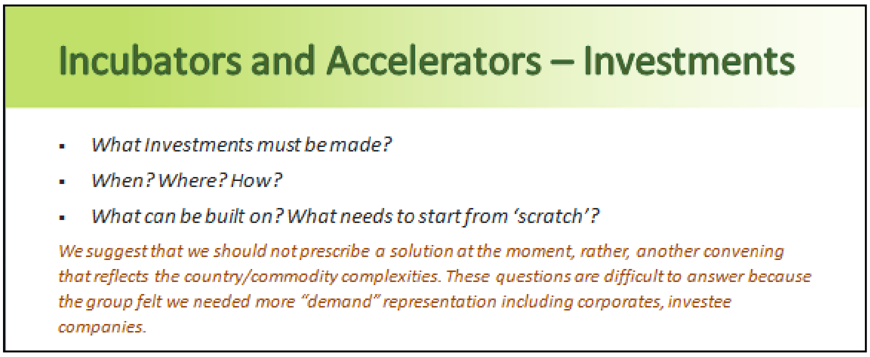


What is the expected leveraged value from the private sector?

Who must be involved? How? Why?

What investments must be made? What is the expected impact of the combined investment?

- When considering success and impact, a 'basket of impacts' including: rates of return, emissions reductions, funds leveraged, demonstration effect (i.e., three new funds created), social impacts and environmental outcomes was suggested.



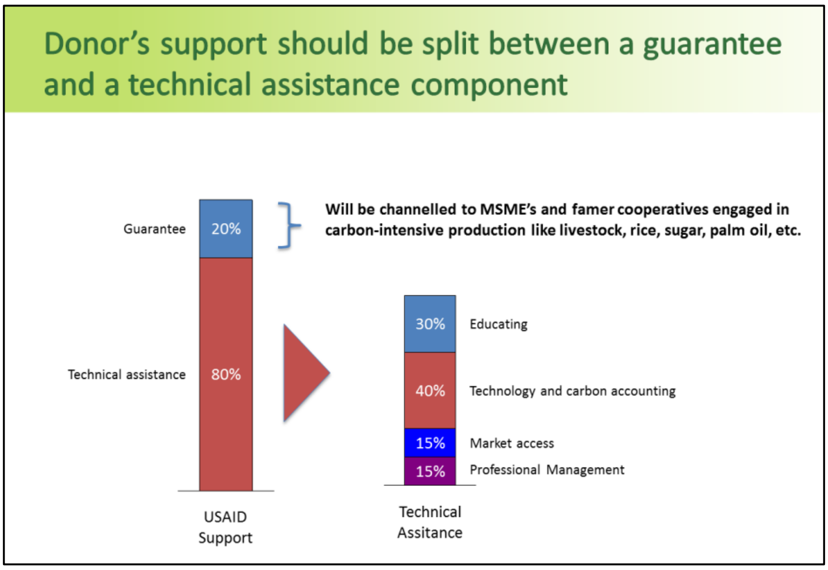
ESG Compliance

The group's discussion followed on from previous sessions and again highlighted the role of an intermediary and the cost and responsibility for compliance auditing. Long-term donor funding for this task is not sustainable, self-regulation has constraints and passing on the cost to producers provides a disincentive to participate.

The final discussion point focused on time and speed. A donor's procurement process can be lengthy and not well aligned to the time frame of a bank wanting to introduce ESG standards and compliance mechanisms.

What must a donor 'bring to the table'?

- The group agreed on TA needed for standardizing and introducing ESG safeguards whereas no real consensus was reached on whether these attributions were appropriate. But the attribution between TA and a guarantee does illustrate that capital is not the issue for the banking sector.

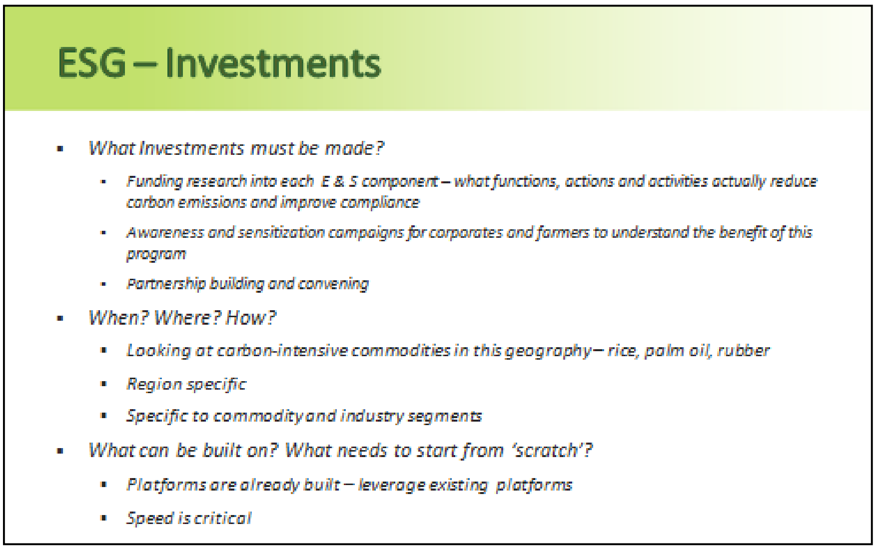


Who must be involved? How? Why?

What Investments must be made?

What does success look like?

- Banks: Increased percentage of clients adhering to ESG norm; new client segments.
- Farmers: Lower cost of capital, reduced carbon emissions, increased yields, productivity and market access, higher premiums for products with ESG certification.



Green Bonds

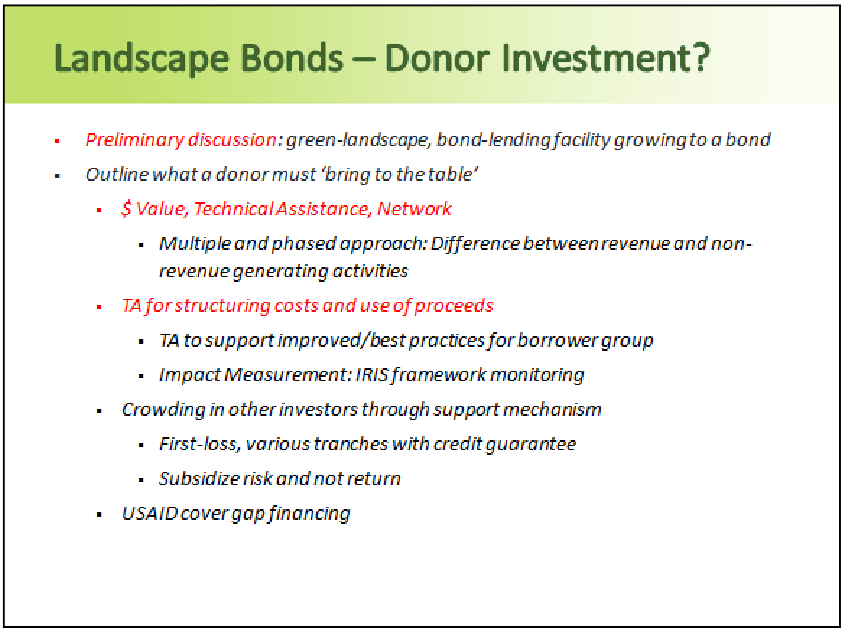
As with other groups, the wide range of potential responses to questions of commodity, country, scale, and impact made the discussion difficult. Donor mandates may add to this complexity.

A donor would not be able to achieve 'everything,' nor will a 'one-size-fits-all' approach necessarily work. Possible donor investments are listed below, but a period of piloting with the private sector will be needed to align country context with Bond architecture, demand and partner expectations. An investment of $5 million from a donor may attract other investors, but ultimately the bond will need to reach in excess of $50 million (some suggested a $20 million commitment from a donor and the bond value eventually as high as several hundred million). But donors could take a step-wise approach to test the model and attract additional investors to grow the bond as demand and confidence builds. This will also be necessary to differentiate between revenue and non-revenue generating activities.

Donors should also not re-invent the wheel and consider such work already completed on Impact Reporting & Investment Standards (IRIS) (https://iris.thegiin.org/) developed by the Global Impact Investing Network (GIIN) (https://thegiin.org/).

What must a donor bring to the table?'

- A combination TA, capital investment, grants and networks.
- TA for structuring costs and the use of proceeds as well as supporting improved/ best practices for the borrower group.
- Capital investment with aim to crowd in other investors through support mechanisms such as:
    - First-loss (may be costly) guarantee



- Grant funding or even low impact loans for non-revenue generating activities
- Gap financing to cover interest repayments derived from the coupon bond
- Importantly donors can subsidize risk, but not return

What is the expected leveraged value from the private sector?

Landscape Bonds –Private Sector Leverage?

- *Create or participate in separate legal entity with guarantee/grant funding*
- *Convening/Shared learning*
- *Revolving / ever-green*
- *Possibility to have separate governance and procurement rules*
- *Combination TA – grant - investment*

- *E.g. $20 million commitment by USAID, but depends on financial model*

Risks:

- *Avoiding conflict of interests - PPP*
- *Proof of concept / Implementation risks, pilot model, test of investment themes in SE Asia - diversification*

What partnerships must be established?

Landscape Bonds – Partners and Partnerships

- *Who must be involved? How? Why?*
- *What Partnerships must be established? TA*
  - *TA partners to train bankers, aggregation of small holders, M and E of impact, structuring financial instruments*
  - *Work with farmers cooperatives, supply chain management/certification, promote best practices*
  - *Likely completed by NGOs*

- *Country focus – How can RDMA regional approach work with complications between multi-country investment*
  - *Multi-country will create complications, easier if one country*
  - *Could RDMA work in separate streams in each country*

What does success look like?

- Donor perspective: Achieving leverage, meeting a market need, innovation, scale, replicability and proof of concept through a pilot.
- Producer/buyer perspective: Avoided deforestation, improved livelihoods, environmental services.
- Investor perspective: Alignment of strategy and interests, increased yields, consistent and reliable economic returns, triple bottom line (IRIS metric (GIIN), predictability and risk reduction, and reputation risk when choosing partners).

Conclusion

The *Accelerating Investment in Low Emission Land Management in Asia* meeting focused on reviewing three financing mechanisms for low emission AFOLU sector development. Participants concluded that the three mechanisms explored *are all valid options* through which donors may leverage private investment in lowering emissions in the AFOLU sector, but that no one mechanism can solve all low emissions investment challenges. Each has different modalities, scale of application, risks and potential emissions impacts:

- The **Incubator/Accelerator** mechanism presents a holistic means of providing financial and technical support to small-medium companies with the potential to locate supply-demand opportunities. Scale and impact is potentially limited and picking between an incubator and accelerator is a false dichotomy as the two must interface.
- Adoption of **ESG** measures by banks and financial institutions represents a potentially efficient and effective step towards improving the sustainability of AFOLU investments across the region. Stock exchanges have a leveraging role, amplifying the message to the market, adding credibility and setting reporting standards on ESG compliance. However, auditing compliance and ensuring effective emission reductions across a broad range of SMEs is a challenge.
- **Green Bonds** or landscape bonds have been mostly issued for energy projects, although there appears to be growing interest in green bonds in the AFOLU sector. This is largely because of the potential to raise large amounts of investment capital and their increasing relevance once the scale of sustainable AFOLU investment in the region reaches higher levels. Current opportunities for scaling in Asia are limited due to the difficulty in aggregation of capital and lack of mature (carbon) markets.

Ultimately, further refinement will be required to match country contexts, supply chains, demand and stakeholder needs, and donors will need to narrow down the choice of mechanism in view of these factors to ensure a focused and strategic investment of resources. Regardless of the financial mechanism, returns on low emission investments will be necessary to cover any increased costs and to ensure sustainability and scalability once concessionary capital has been phased out.

The policy, regulatory and governance environment will be a critical determinant of the potential success of any financing mechanism. Donor efforts to mobilize private investment should target countries and jurisdictions with favorable policy and institutional environments where complementary initiatives are present.

Monitoring and evaluation of investment impacts on emissions and other social and environmental outcomes will be essential in ensuring sustainability goals are met. In some cases this may entail setting baselines and measuring emission reductions and development outcomes while in others, investments may be conditional on the inclusion of low-emissions activities and exclusion of high emissions activities, which could form the basis of monitoring.

Donor-supported technical assistance to build capacity and awareness on the emerging investment platforms, for structuring costs and the use of proceeds, and supporting improved/best practices for the borrower group, the finance community and the private sector will be equally important as the investment of donor capital. The attribution between technical assistance and a guarantee illustrates that capital is not the issue for the banking sector.

Participants agreed that strategic and targeted donor-funded capital investments are necessary to catalyze private sector actions and investments. Further, the ability of donors in convening partners, building bridges and reconciling expectations is highly valued by the private sector. The priority of the finance community is to secure return on investment, perhaps paraphrased as *if the mechanism is right, the funding will flow*. The AFOLU community tend to focus more on how the investment will reduce emissions, paraphrased as *define the profitable emissions-reducing activity and investors will come regardless of the mechanism*. Donors therefore, should co-define with private partners, initiatives where expectations, processes and intended impacts are agreed. This will be essential to match supply and demand and deliver a range of public and private sector benefits to the intended beneficiaries.

Given the complexity and challenges in attracting and directing new investment in low emission AFOLU activities, further discussion is required to assess and refine the three mechanisms in the context of national policy and institutional frameworks, potential for emissions reductions, commodity supply chains, financing demands and stakeholder needs.

Annex 1: Workshop Agenda

<table>
<tr><th colspan="3">Day 1</th></tr>
<tr><td>8:30 am</td><td>Registration</td><td></td></tr>
<tr><td>9:00 am</td><td>Opening remarks, scene setting and objectives for meeting
(USAID Support post Paris COP21 and Asian priorities)</td><td>Alfred Nakatsuma
USAID RDMA</td></tr>
<tr><td>9:15 am</td><td>Work to date to frame the context of this meeting
(including rough Theory of Change framework)</td><td>Brian Bean
USAID LEAF</td></tr>
<tr><td>9:35 am</td><td>Where is the region focusing after Paris?
Country contexts: summary of national strategies, INDCs and low emission land and forest management</td><td>Dr Natcha Tulyasuwan
USAID LEAD</td></tr>
<tr><td>10:00 am</td><td>Morning break</td><td></td></tr>
<tr><td>10:30 am</td><td>Potential “engagement opportunities” for accelerating private sector investments in low emission forest and land management</td><td>Rajen Makhijani
Dalberg</td></tr>
<tr><td>11:15 am</td><td>Question and Answer session on analysis</td><td>Facilitator: Peter Stephen</td></tr>
<tr><td>12 noon</td><td>Lunch</td><td></td></tr>
<tr><td>1:00 pm</td><td>Validation of private sector engagement models.
SWOT on priority engagement models
Accelerator (for fund managers) and incubator (for enterprises)
Incentivizing ESG compliance in banks
Green bonds
What is missing? Other mechanisms to accelerate investment</td><td>Working groups x 3
I/A Faciliator: James Bui
ESG Facilitator: Rajen Makhijani
Green Bonds Facilitator: Kevin Martin</td></tr>
<tr><td>3:00 pm</td><td>Afternoon break</td><td></td></tr>
<tr><td>3:30 pm</td><td>Working group report back
30 minutes for group presentations (10 minutes per group)
30 minutes for facilitated discussions</td><td>Facilitator: Peter Stephen</td></tr>
<tr><td>4:30 pm</td><td>Daily summary
Which models best serve as ‘tipping points’ for accelerating financing for sustainable landscapes?
Which models provide ‘quick wins’ that leverage (smart/strategic) public money to accelerate (broad) private sector investments?
What additional information is needed to help answer these questions? What key questions are we not asking, that we should?</td><td>Reflections on the day</td></tr>
<tr><td>5:00 pm</td><td>Close of day</td><td></td></tr>
</table>

Day 2		
9:00 am	Day 1 Recap and Day 2 process	Facilitator: Peter Stephen
9:15 am	Where will each model work? ● Commodities? Landscapes/countries? ● Companies/Institutions? ● Can they be scaled and/or replicated? ● Regulatory and policy frameworks?	Working groups x 3 • I/A Facilitator: James Bui/Brian Bean • ESG Facilitator: Rosalind Yunibandhu Green Bonds Facilitator: Geoff Blate
10:30 am	**Morning break**	
11:00 am	Working group reporting	Facilitator: Peter Stephen
12:00 pm	**Lunch**	
1:00 pm	What will it take to make each model work? ● How can limited public finance leverage transformational private sector investment? ● What are expected outcomes and metrics to measure?	Working groups x 3 • I/A Facilitator: James Bui/Brian Bean • ESG Facilitator: Shreejesh Nair Green Bonds Facilitator: Geoff Blate
3:00 pm	**Afternoon break**	
3:30 pm	Working group reporting	Facilitator: Peter Stephen
4:30 pm	Daily and Workshop Summary ● Are we being too optimistic to think that donor investment can leverage 'quick wins' through private sector capital and investment?	Facilitator: Peter Stephen
4:45 pm	Next steps	Jerry Bison, USAID
5:00 pm	**Close of day**	

Annex 2: Participants

Adam Tomasek	USAID Lab
Alfred Nakatsuma	USAID RDMA
Alison Eskesen	GrowAsia
Anil Raut	UNFCCC
Aurelia Micko	USAID RDMA
Aya Uraguchi	Conservation International
Beau Damen	FAO
Brian Bean	USAID LEAF
Edward Rumsey	Permian Global
Erik Streed	USAID Indonesia
Geoff Blate	USFS
Geoffrey Tan	OPIC
Goran Haag	SIDA
Hans Smit	SNV
Imelda (Dada) Bacudo	GIZ / ACRN
James Bui	Lotus Impact
James Grall	USAID LEAF
Jenny Lundmark	Delegation of the European Union to Thailand
Jeremy Broadhead	USAID LEAF
Jerry Bisson	USAID Asia Bureau
JP Gibbons	DCA
Ken Andrasko	Winrock/AFOLU WG
Kevin Martin	USAID RDMA
Magaret Yoovatana	Min Ag Thailand / ACRN
Marianne Smallwood	USAID RDMA
Matt Austin	E3
Michael Wykoff	USAID LEAF
Mihn Thai Dihn Thi	Microfinance and Community Development Institute
Natasha Burley	USAID LEAD

Natcha Tulyasuwan	USAID LEAD
Niramon Passananont	USAID LEAF
Pak Dolly Priatna	Asia Pulp and Paper
Paul Hartman	Mekong ARCC
Peter Stephen	USAID LEAF
Pran Siamwalla	Krungsi Bank
Rajen Makhijani	Dalberg Global Development Advisors
Robert Barker	BNP Paribas
Rosalind Yunibandhu	PricewaterhouseCoopers
Sabita Prakash	ADM Capital
Sandra Khananusit	USAID LEAD
Shreejesh Nair	Citibank
Sophia Gnych	CIFOR
Steve Lawry	CIFOR
Suphasuk Pradubsuk	USAID RDMA
Susan Roxas	WWF
Taryn Goodman	The Nature Conservancy
Terry Vogt	Terra Global
Thanaphol Suttibut	Krungsi Bank
Todd Johnson	USAID Asia Bureau